Engro Fertilizer (EFERT)

2Q2018 EPS Rs2.44, up by 31% YoY; 1H2018 EPS Rs5.35 up by 74% YoY

Cash Dividend of Rs4/share

Above expectations

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2Q2018 EPS clocked in at Rs2.4, up by 31% YoY

EFERT: Financial Highlights

Rsmn	2Q2018	2Q2017	YoY	QoQ	1H2018	YoY
Net Sales	22,898	17,247	33%	26%	41,116	51%
Cost of Sales	16,208	11,994	35%	49%	27,096	46%
Gross Profit	6,689	5,253	27%	-9%	14,020	60%
Selling & Dist. Exp	1,606	1,862	-14%	-4%	3,271	4%
Admin Expense	217	195	11%	-27%	513	15%
Operating Profit	4,866	3,196	52%	-9%	10,236	98%
Other Income	509	2,068	-75%	-55%	1,654	-49%
Other Expenses	169	414	-59%	-58%	573	-8%
Finance Cost	362	623	-42%	-31%	886	-32%
Profit Before Tax	4,845	4,227	15%	-13%	10,432	61%
Tax	1,585	1,748	-9%	-7%	3,282	39%
Profit After Tax	3,260	2,479	31%	-16%	7,149	74%
EPS	**2.4**	**1.9**	31%	-16%	**5.4**	74%

Source: PSX, Topline Research

- Engro Fertilizer posted earnings growth of 31% YoY to Rs2.4/share during 2Q2018, that lies above our expectations. Earnings were higher mainly on the back of lower than anticipated effective tax rate of 33%. This was also lower than historical trend, where 2Q2017 and 2Q2016 tax rate clocked in at 42% and 52% respectively. We await management's clarity over this issue.
- In line with expectations, the company's urea gross margins hammered by 10ppts QoQ to 35% due to 1) rupee devaluation (as company's concessionary gas and PP12 gas is US$ denominated) and 2) closure of Enven for maintenance, that increased weighted average cost of gas, we believe.

2Q2018 EPS clocked in at Rs2.4, up by 31% YoY

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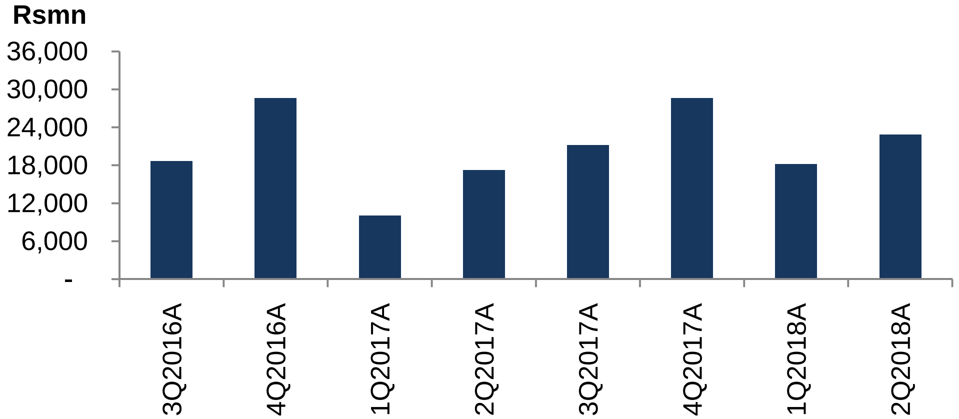
- Company recorded 33% YoY growth in its sales revenue due to increase in urea and DAP price by 10% and 20% YoY respectively. While, selling and distribution cost went down by 14% YoY due to lower handling cost.
- Finance cost during the 2Q2018 went down by 42% YoY to Rs362mn as company retired its short term borrowings by utilizing surplus cash, arising out of accrual of GIDC.
- Other income down by 75% YoY to Rs509mn as company recorded subsidy on urea for half of the quarter (as prices of urea were increased on May 07, 2018). Further, absence of cash subsidy on DAP is also another reason behind lower other income.
- We flag, 1) PKR depreciation, 2) regulatory control on fertilizer industry, 3) poor crop season and 4) unfavorable decision related to GIDC as a key risks to our earnings/valuation forecast.

EFERT: Key Numbers

	2013A	2014A	2015A	2016A	2017A
EPS	4.1	6.1	11.1	7.0	8.4
Earnings Growth	-287%	49%	81%	-37%	20%
PE at Rs81.4	19.8	13.2	7.3	11.7	9.7
Dividend Yield	0%	4%	7%	9%	10%
ROE	22%	28%	41%	21%	27%
PBV	4.3	3.7	3.0	2.4	2.6

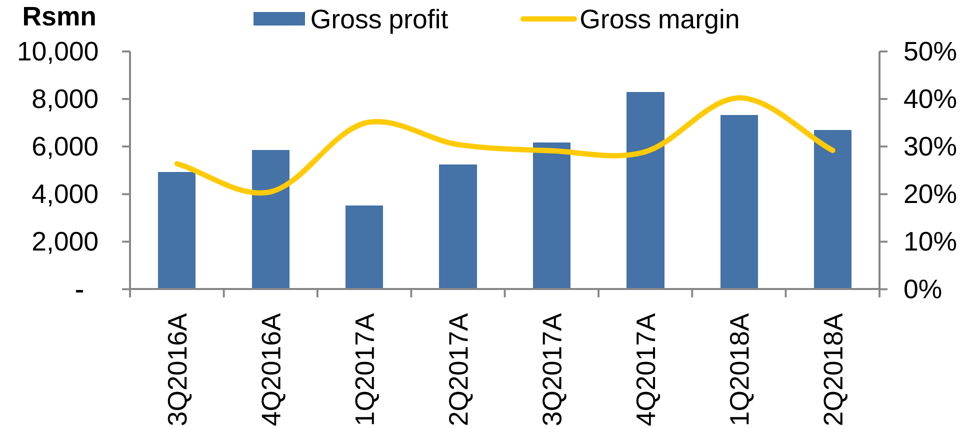
Source: Company Accounts, Topline Research

EFERT: Quarterly Sales



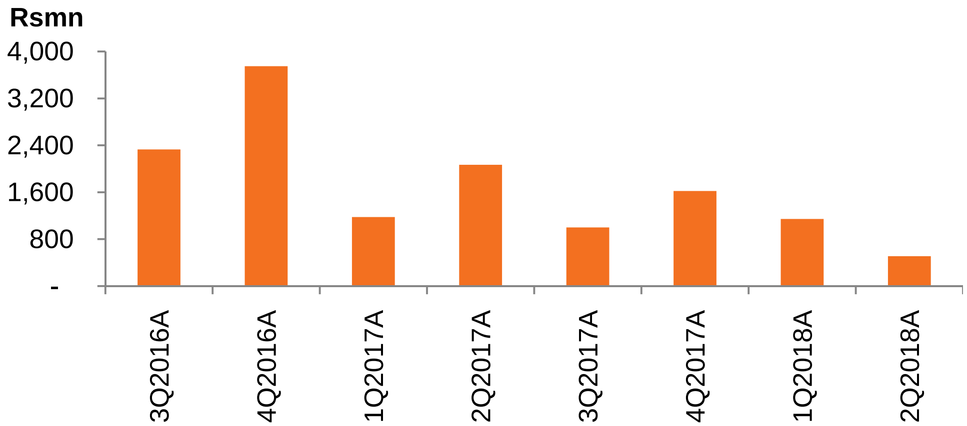
Source: Company Accounts, Topline Research

EFERT: Quarterly Gross Profit & Gross Margins



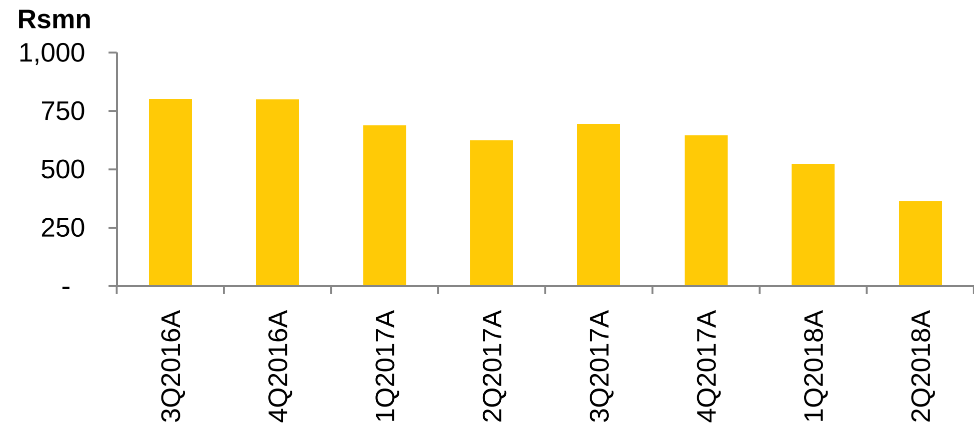
Source: Company Accounts, Topline Research

EFERT: Quarterly Other Income



Source: Company Accounts, Topline Research

EFERT: Quarterly Financial Charges



Source: Company Accounts, Topline Research

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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